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CLAREPINE OIL and GAS LTD.

Fifth Annual Report

File

Clarepine Oil and Gas Ltd.

EDMONTON, ALBERTA

Board of Directors

R. A. McAlpine—Edmonton, Alberta
C. P. Stumborg—Edmonton, Alberta
J. J. Stumborg—Edmonton, Alberta

Officers

R. A. McAlpine, P.Eng.—President
C. P. Stumborg—Vice-President
J. J. Stumborg—Secretary-Treasurer

Transfer Agent

North West Trust Co.
10166 - 100th Street
Edmonton, Alberta

Solicitors

Milner, Steer, Dyde, Massie, Layton, Cregon & Macdonnell
9th Floor Milner Building
Edmonton, Alberta

Auditor

Gardner & Co., Chartered Accountants
203, 10275 Jasper Avenue
Edmonton, Alberta

Consulting Engineers

Blain, Binnie & Mathis
306, 634 - 6th Avenue S.W.
Calgary, Alberta

Head Office

560 One Thornton Court
Edmonton, Alberta

Listed

Calgary Stock Exchange

Clarepine Oil and Gas Ltd.

1968 ANNUAL REPORT

President's Report to the Shareholders

FINANCIAL:

During 1968 your management has continued to consolidate and strengthen the company's financial position. Current assets on November 30, 1968 are reported as \$228,735.70, this includes securities at a cost of \$200,667.14. A very material change has taken place between November 30, 1968 and February 1, 1969 and it must now be reported that the presently held securities have an approximate market value of \$580,000.00. In 1968 we applied \$36,326.23 of the company's funds as shown in the statement while increasing our working capital position \$8,049.69.

ACQUISITION AND DIVERSIFICATION:

The company is continuing to hold its 45 percent interest in the uranium claims in the Wopmay River area of the Northwest Territories. The number of claims was reduced from 60 to 4 covering the main area of interest in the prospect. The company is directly and through its partially owned subsidiary Petroleum Royalties, Limited continuing to maintain its interest in Pacific Copper Mines Ltd. of Edmonton. We have diversified our investment in this project by purchasing shares in the Australian subsidiary company Pacific Copper Explorations Ltd. The shares of the company Pacific Copper Explorations Ltd. are now traded on Sydney, New South Wales Australia stock exchange, as well as the London, England stock exchange. Substantial copper tonnage has been proven to be present at the Cadia property to date and three drills are currently carrying out further development work. Your management is pleased with the developments in this company to date and we look for a further appreciation of this investment during 1969.

Your company through its wholly owned subsidiary Greenway Investments Ltd. has acquired an option to purchase 43.13 acres of undeveloped land in North East Edmonton, at a cost of \$5,000 per acre. This land is strategically located near the proposed rapid transit terminal and town centre planned for the area. Barring presently unforeseen developments it is the intention of management to exercise this option and carry the development through to fruition. We expect to see considerable appreciation in this asset in the coming years as the property is developed.

OIL PRODUCTION AND RESERVES:

Gross income from oil sales during 1968 was \$36,624.23 as compared to \$39,599.66 for 1967. Our Lloydminster production was reduced by proration throughout most of the summer of 1968. We do not look for an appreciable change in this production rate during 1969. Two wells are currently shut in and it is to be hoped that market conditions will improve so that at least these wells may be put into production this spring.

In keeping with the basic philosophy of your management, we will continue to use the financial resources of the company in the most effective and productive manner to insure adequate return on capital and efforts.

It is a pleasure to express the appreciation of the directors for your continued interest in the affairs of the company.

Respectfully submitted on behalf of the Board of Directors.

President and General Manager
R. A. McAlpine, P.ENG.

AUDITOR'S REPORT

To the Shareholders,
Clarepine Oil and Gas Ltd.,
Edmonton, Alberta.

We have examined the Consolidated Balance Sheet of Clarepine Oil and Gas Ltd. and Subsidiary Companies as at November 30, 1968, and the Consolidated Statements of Income and Expense, Deficit and Source and Application of Funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these Consolidated Financial Statements when read in conjunction with the notes appended thereto present fairly the financial position of the Companies as at November 30, 1968, the results of their operations and the source and application of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta,
January 10, 1969.

GARDNER & CO.,
Chartered Accountants

Clarepine Oil
AND SUBSIDIARIES

CONSOLIDATED
AS AT NOVEMBER 30, 1968
(with comparative figures for 1967)

ASSETS

| | 1968 | 1967 |
|---------------------------------------------------------------------------------------------|---------------------|---------------------|
| Current Assets | | |
| Cash in banks | \$ 16,536.67 | \$ 5,965.60 |
| Term deposit receipt | 10,000.00 | 60,000.00 |
| Accounts receivable | 1,531.89 | 10,181.35 |
| Marketable securities, at cost (market value 1968—\$280,829.17, 1967—\$111,034.00) | 200,667.14 | 105,442.13 |
| | <u>228,735.70</u> | <u>181,589.08</u> |
| Investment in shares, at cost (Note 1) | <u>2,000.00</u> | <u>2,000.00</u> |
| Fixed Assets, at cost | | |
| Leases—producing | 29,860.78 | 29,860.78 |
| Intangible development costs | 133,436.88 | 147,756.47 |
| Production equipment | 62,442.99 | 62,434.53 |
| Furniture, fixtures and automotive equipment | 4,599.51 | 4,489.00 |
| | <u>230,340.16</u> | <u>244,540.78</u> |
| Deduct: accumulated depletion, amortization and depreciation | 52,138.17 | 39,604.81 |
| | 178,201.99 | 204,935.97 |
| Non-producing lease costs and claims | 32,327.33 | 35,948.28 |
| | <u>210,529.32</u> | <u>240,884.25</u> |
| Other Assets, at cost | | |
| Deposit on option (Note 8) | 15,069.00 | |
| Performance deposit | 6,000.00 | 6,000.00 |
| Organization expenses | 3,302.80 | 2,947.90 |
| | <u>24,371.80</u> | <u>8,947.90</u> |
| Excess of cost of investment in subsidiary company over its net book value | <u>16,063.88</u> | <u>19,697.10</u> |
| | <u>\$481,700.70</u> | <u>\$453,118.33</u> |

Approved on behalf of the board
C. P. Stumborg, Director
R. A. McAlpine, Director

BALANCE SHEET

BER 30, 1968
figures for 1967)

Exhibit B

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1968 | 1967 |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| Current Liabilities | | |
| Bank loan (Note 2) | \$ 42,104.08 | \$ 55,125.99 |
| Accounts payable—Trade | 4,526.86 | 5,715.88 |
| —Others | 65,233.63 | 11,925.77 |
| | <u>111,864.57</u> | <u>72,767.64</u> |
| Minority interest in subsidiary company | 14,787.56 | 9,954.34 |
| Shareholder's Equity | | |
| Capital Stock | | |
| Authorized: 10,000,000 common shares without nominal or par value | | |
| Issued: | | |
| for cash 2,000,000 shares | 410,000.00 | 410,000.00 |
| for shares in a subsidiary company 75,000 shares .. | 30,000.00 | 30,000.00 |
| | <u>440,000.00</u> | <u>440,000.00</u> |
| Deduct: shares held by subsidiary company (Note 7) | 20,415.60 | |
| Commission on sale of shares | 57,000.00 | 57,000.00 |
| | <u>77,415.60</u> | <u>57,000.00</u> |
| | 362,584.40 | 383,000.00 |
| Deficit—Exhibit C | (7,535.83) | (12,603.65) |
| | <u>355,048.57</u> | <u>370,396.35</u> |
| | <u>\$481,700.70</u> | <u>\$453,118.33</u> |

The attached notes form an integral part of these Financial Statements.

This is the Balance Sheet referred to in our Report dated January 10, 1969.

GARDNER & CO.,
Chartered Accountants

Exhibit A

Clarepine Oil and Gas Ltd.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE

for the year ended November 30, 1968
(with comparative figures for 1967)

| | 1968 | 1967 |
|--------------------------------------------------------------|--------------------|--------------------|
| Income | | |
| Oil sales | \$ 36,624.23 | \$ 39,599.56 |
| Investment income | 9,674.78 | 14,371.81 |
| Consulting fees | 12,000.00 | 8,000.00 |
| Gain on sale of securities | 49,229.28 | 31,285.42 |
| | <u>107,528.29</u> | <u>93,256.79</u> |
| Expenses | | |
| Production expenses | 28,142.16 | 32,900.76 |
| General and administrative | 25,836.54 | 25,334.65 |
| Interest | 14,769.27 | 11,932.02 |
| | <u>68,747.97</u> | <u>70,167.43</u> |
| Profit before the undernoted | 38,780.32 | 23,089.36 |
| Provision for depletion, amortization and depreciation | 12,140.16 | 14,410.06 |
| Dry well written off and non-producing lease abandoned | 18,701.50 | |
| | <u>30,841.66</u> | <u>14,410.06</u> |
| Profit before minority interest | 7,938.66 | 8,679.30 |
| Income (loss) applicable to minority interest | 2,870.84 | (733.97) |
| Net income—Exhibit C | <u>\$ 5,067.82</u> | <u>\$ 9,413.27</u> |

Exhibit C

Clarepine Oil and Gas Ltd.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF DEFICIT

for the year ended November 30, 1968
(with comparative figures for 1967)

| | 1968 | 1967 |
|-----------------------------------------------------------------------------|--------------------|---------------------|
| Balance at beginning of year | \$ 12,603.65 | \$ 19,622.34 |
| Income tax and interest levied against subsidiary Company (Note 6) | | 2,394.58 |
| Net income for the year—Exhibit A | (5,067.82) | (9,413.27) |
| Balance at end of year—Exhibit B | <u>\$ 7,535.83</u> | <u>\$ 12,603.65</u> |

Clarepine Oil and Gas Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended November 30, 1968
(with comparative figures for 1967)

| | 1968 | 1967 |
|--------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Source of Funds | | |
| Net income for the year—Exhibit A | \$ 5,067.82 | \$ 9,413.27 |
| Expenses not requiring an outlay of funds | | |
| —depletion, depreciation and amortization | 12,140.16 | 14,410.06 |
| —dry well written off and non-producing lease abandoned | 18,701.50 | |
| Disposal of automotive equipment | | 2,240.00 |
| Reclassification of investment in marketable securities | | 25,815.00 |
| Reduction in excess of cost of investment in subsidiary company over its net book value | 3,633.22 | |
| Increase in minority interest | 4,833.22 | |
| | <u>44,375.92</u> | <u>51,878.33</u> |
| Application of Funds | | |
| Increase in intangible development costs | 167.76 | 30,577.68 |
| Purchase of production equipment | 8.46 | 4,928.01 |
| Purchase of other equipment | 110.51 | 3,841.00 |
| Purchase of interest in mineral claim | 200.00 | 3,660.64 |
| Increase in organization expenses | 354.90 | |
| Re-assessment of prior years' income taxes | | 2,394.58 |
| Decrease in minority interest | | 2,027.33 |
| Deposit on option | 15,069.00 | |
| Reduction of Capital Stock by subsidiary purchase of same | 20,415.60 | |
| | <u>36,326.23</u> | <u>47,429.24</u> |
| Increase in consolidated working capital | <u>\$ 8,049.69</u> | <u>\$ 4,449.09</u> |

Clarepine Oil and Gas Ltd.

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at November 30, 1968

1. The investment in shares has no quoted market value.
2. The bank loan is secured by a general assignment of producing oil leases and is being repaid at \$1,500.00 per month including interest.
3. Remuneration to officers of the companies totalled \$13,828.37.
4. Shares of Clarepine Oil and Gas Ltd. held in escrow as at the Balance Sheet date totalled 536,418.
5. Clarepine Oil and Gas Ltd. employs the "full cost method of accounting" wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. These costs are amortized on the unit of production method based on total estimated proven developed reserves. Production equipment is depreciated on the straight line method based on a ten year life.

It is the policy of Clarepine Oil and Gas Ltd. to claim for income tax purposes, exploration and development expenditures as incurred, as well as maximum capital cost allowances. These amounts are in excess of the related charges for depletion, amortization and depreciation recorded in the Financial Statements.

6. A subsidiary company was re-assessed during 1967 by the Department of National Revenue on the gains made during 1966 on its security transactions. The company is disputing the re-assessment. No provision has been made in the accounts for corporation income taxes on security transactions subsequent to the 1966 taxation year, pending the outcome of the above-noted dispute. Should the appeal go against the company, additional taxes of \$1,277.25 would be payable.

Income taxes of the parent company have been eliminated by application of prior years' losses against current income.

7. Shares in Clarepine Oil and Gas Ltd. purchased by a subsidiary company have been deducted at the average issue price.
8. A subsidiary company has an option to purchase approximately 43.13 acres of undeveloped land in north east Edmonton at a cost of \$5,000.00 per acre, exercisable up to December 1, 1969. Payments made to date are to apply against the total purchase price.

